

ALTERNATIVE FORECASTS

Global Insight has assigned a 55% probability of occurrence to its March 2006 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 3.3% in 2006, 2.4% in 2007, 3.0% in 2008, and 3.3% in 2009;
- U.S. nonfarm employment grows 1.5% in 2006, 1.2% in 2007, 1.2% in 2008, and 1.2% in 2009;
- the annual U.S. civilian unemployment rate hovers near 5.0% through 2009;
- consumer inflation is 2.4% in 2006, 1.7% in 2007, 1.9% in 2008, and 1.8% in 2009;
- the current account deficit is \$922 billion in 2006, \$938 billion in 2007, \$915 billion in 2008, and \$895 billion in 2009; and
- the federal unified budget deficit is \$347 billion in 2006, \$314 billion in 2007, \$345 billion in 2008, and \$328 billion in 2009.

OPTIMISTIC SCENARIO

Global Insight has assigned its *Optimistic Scenario* a 20% probability of occurrence. Seven assumptions distinguish this scenario from the baseline. First, total factor productivity is stronger. Underlying this assumption is the belief the information-driven technology boom will continue. Second, foreign economic growth is stronger, which causes U.S. exports to grow faster in most years in this scenario. Third, the U.S. dollar is stronger in this scenario. Fourth, business investment is stronger. This is not hard to imagine because the current level of business spending is below the historical average at a time when businesses are running out of industrial capacity. Fifth, the federal budget deficit is lower thanks to higher revenues and lower federal transfer payments. Also contributing to the smaller deficit is lower interest payments because of lower interest rates. Sixth, the lower interest rates also contribute to stronger housing starts. Seventh, the *Optimistic Scenario* assumes energy prices are lower than in the baseline.

These assumptions produce a rosier forecast than the baseline. The U.S. economy grows 0.3 percentage point faster than in the baseline in 2006 and 0.4 percentage point faster in 2007. Although economic growth and labor markets are stronger, inflation is lower because of the stronger dollar and the higher productivity gains. The lower inflation allows the Federal Reserve to keep its federal funds rate below the baseline value. Since productivity is stronger, potential GDP is higher. Job growth is also stronger, which keeps the unemployment rate below its baseline counterpart over the forecast period.

Ironically, the improved productivity, which propels the U.S. economy, dampens the prospects for the Idaho economy. The stronger productivity suppresses Idaho job growth that causes personal income to also fall below the baseline pace. This effect is most pronounced in the last two years of the forecast period. For example, Gem State employment in the *Optimistic Scenario* is about 360 lower than its baseline counterpart in 2007. After that year, Idaho nonfarm employment grows one-half percentage point slower than in the baseline each year, so that in 2009 there are about 7,200 fewer jobs than in the baseline. The personal income differences are even more striking. For example, Idaho nominal personal income growth is a full percentage point slower in each year of the forecast's last two years. As a result, it is \$50.6 billion in 2009 compared to the baseline's \$52.0 billion, a difference of \$1.4 billion. However, the gap between the two forecasts narrows when personal income is adjusted for inflation because inflation is lower than in the baseline case. Specifically, Idaho real personal income is \$42.8 billion in this scenario and \$43.4 billion in the *Baseline Scenario*.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
APRIL 2006

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
GDP (BILLIONS)												
Current \$	13,246	13,802	14,481	15,236	13,275	13,850	14,536	15,341	13,135	13,566	14,340	15,231
% Ch	6.1%	4.2%	4.9%	5.2%	6.3%	4.3%	4.9%	5.5%	5.2%	3.3%	5.7%	6.2%
2000 Chain-Weighted	11,505	11,778	12,136	12,535	11,534	11,859	12,261	12,742	11,390	11,476	11,793	12,139
% Ch	3.3%	2.4%	3.0%	3.3%	3.6%	2.8%	3.4%	3.9%	2.3%	0.8%	2.8%	2.9%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	42,860	45,869	48,739	51,983	42,768	45,525	47,954	50,631	43,150	46,608	49,973	54,238
% Ch	6.5%	7.0%	6.3%	6.7%	6.3%	6.4%	5.3%	5.6%	7.2%	8.0%	7.2%	8.5%
U.S. (Billions)	10,885	11,439	12,049	12,744	10,897	11,464	12,080	12,780	10,864	11,381	12,036	12,836
% Ch	6.2%	5.1%	5.3%	5.8%	6.3%	5.2%	5.4%	5.8%	6.0%	4.8%	5.8%	6.6%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	37,733	39,704	41,398	43,392	37,804	39,712	41,170	42,845	37,553	39,389	41,008	43,244
% Ch	4.4%	5.2%	4.3%	4.8%	4.6%	5.0%	3.7%	4.1%	3.9%	4.9%	4.1%	5.5%
U.S. (Billions)	9,583	9,902	10,234	10,638	9,632	10,000	10,371	10,815	9,456	9,619	9,877	10,235
% Ch	4.1%	3.3%	3.4%	4.0%	4.6%	3.8%	3.7%	4.3%	2.7%	1.7%	2.7%	3.6%
TOTAL NONFARM EMPLOYMENT												
Idaho	636,914	655,239	668,563	682,492	637,175	654,883	664,719	675,263	635,263	649,547	661,604	676,300
% Ch	4.0%	2.9%	2.0%	2.1%	4.0%	2.8%	1.5%	1.6%	3.7%	2.2%	1.9%	2.2%
U.S. (Thousands)	135,427	136,989	138,602	140,253	135,526	137,387	139,224	141,181	134,876	135,025	136,076	137,919
% Ch	1.5%	1.2%	1.2%	1.2%	1.5%	1.4%	1.3%	1.4%	1.1%	0.1%	0.8%	1.4%
GOODS-PRODUCING SECTOR												
Idaho	117,556	116,870	114,567	113,935	117,418	115,983	111,645	110,196	117,053	114,398	112,861	112,603
% Ch	4.6%	-0.6%	-2.0%	-0.6%	4.5%	-1.2%	-3.7%	-1.3%	4.2%	-2.3%	-1.3%	-0.2%
U.S. (Thousands)	22,367	22,270	22,176	22,171	22,324	22,246	22,167	22,244	22,410	21,770	21,236	21,245
% Ch	1.0%	-0.4%	-0.4%	0.0%	0.8%	-0.3%	-0.4%	0.3%	1.2%	-2.9%	-2.5%	0.0%
NONGOODS-PRODUCING SECTOR												
Idaho	519,358	538,369	553,996	568,557	519,757	538,900	553,074	565,067	518,209	535,149	548,743	563,697
% Ch	3.8%	3.7%	2.9%	2.6%	3.9%	3.7%	2.6%	2.2%	3.6%	3.3%	2.5%	2.7%
U.S. (Thousands)	113,060	114,719	116,425	118,082	113,203	115,141	117,057	118,937	112,466	113,255	114,840	116,674
% Ch	1.6%	1.5%	1.5%	1.4%	1.7%	1.7%	1.7%	1.6%	1.0%	0.7%	1.4%	1.6%
SELECTED INTEREST RATES												
Federal Funds	4.8%	4.7%	4.6%	4.9%	4.8%	4.8%	4.7%	4.3%	5.7%	7.0%	7.2%	6.4%
Bank Prime	7.8%	7.7%	7.6%	7.9%	7.8%	7.8%	7.7%	7.3%	8.7%	10.0%	10.2%	9.4%
Existing Home Mortgage	6.5%	6.7%	6.8%	7.1%	6.4%	6.5%	6.6%	6.6%	7.8%	8.6%	7.6%	8.0%
INFLATION												
GDP Price Deflator	2.6%	1.8%	1.8%	1.9%	2.6%	1.5%	1.5%	1.6%	2.8%	2.5%	2.9%	3.2%
Personal Cons Deflator	2.0%	1.7%	1.9%	1.8%	2.6%	1.5%	1.5%	1.6%	3.2%	3.0%	3.0%	2.9%
Consumer Price Index	2.4%	1.7%	1.9%	1.8%	1.9%	1.3%	1.6%	1.5%	3.5%	2.6%	2.6%	2.8%

Forecast Begins the FIRST Quarter of 2006

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 25% probability of occurrence. In this scenario, core inflation is higher than in the baseline case. One of the reasons for the price acceleration is this alternative assumes there is less spare capacity in the world. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that theoretically remains on the books. This alternative forecast also assumes the dollar weakens as foreign investors diversify away from the greenback over concerns of the huge U.S. trade deficit. The Federal Reserve raises interest rates more steeply in this alternative compared to the baseline. Despite this more aggressive stance, both the bond and stock markets slip on signs the Federal Reserve may have responded to rising inflation too slowly. Both of these factors point to higher interest rates than in the baseline. The rising interest rates result in a deeper housing downturn than in the baseline case. The central bank may concede the round, but not the match, and it continues to raise rates in order to stop inflation. As a result, the federal funds rate averages 6.4% in the fourth quarter of this year, compared to 5.0% in the baseline.

Consumer confidence suffers from the higher interest rates and persistently high energy prices. Consumer confidence is hurt further by slow job growth and increasing debt loads. As a result of these combined concerns, consumers reel in their discretionary spending, which causes the economy to suffer. The economy does not sink into a recession in this alternative, but merely fails to come as close to its potential as in the baseline. Production shifts from satisfying domestic demand to serving foreign demand, which responds strongly to the weaker dollar. The ground lost to the baseline is never made up, however.

The Idaho economy is also weaker in this scenario. Idaho nonfarm employment grows slower than in the baseline in most years. Employment grows slightly faster in the *Pessimistic Scenario* in 2009, but it is a case of too little, too late. In the forecast's terminal year, employment is 676,300, which is about, 6,200 lower than in the baseline. Personal income is more complex. Idaho nominal personal income benefits from surging inflation and rises to \$54.2 billion in 2009. It is \$52.0 billion in the baseline. However, this scenario's advantage disappears when income is adjusted for inflation. Namely, Idaho real personal income in 2009 is \$43.2 billion in this scenario, which is slightly below the baseline's \$43.4 billion.